Simple Secrets

of Trading

Revealed!

Presented by

TwoNaHalf.cOm

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Simple Secrets of Trading Finally Revealed

What an irony, we start from simple things go on to complicate them only to return back to the simple things! This e-Book is all about simple tools to be used for trading.
I, for one, started with rock bottom basic tools and went ahead to learn the fullest of technical analysis, only to realize that to trade profitably I only needed to know 3 simple tools and 1 secret pattern!

Whoever said there is no holy grail to trading? There is!
It was always there, right in front of our eyes, just that we did not see it.
I saw it! And I traded based on these simple tools and started making money – *Consistently*!

Do YOU want to be able to make money from the market consistently on a daily basis? Who doesn't?
So, welcome to the "Reverse Swing Trading Strategy"!

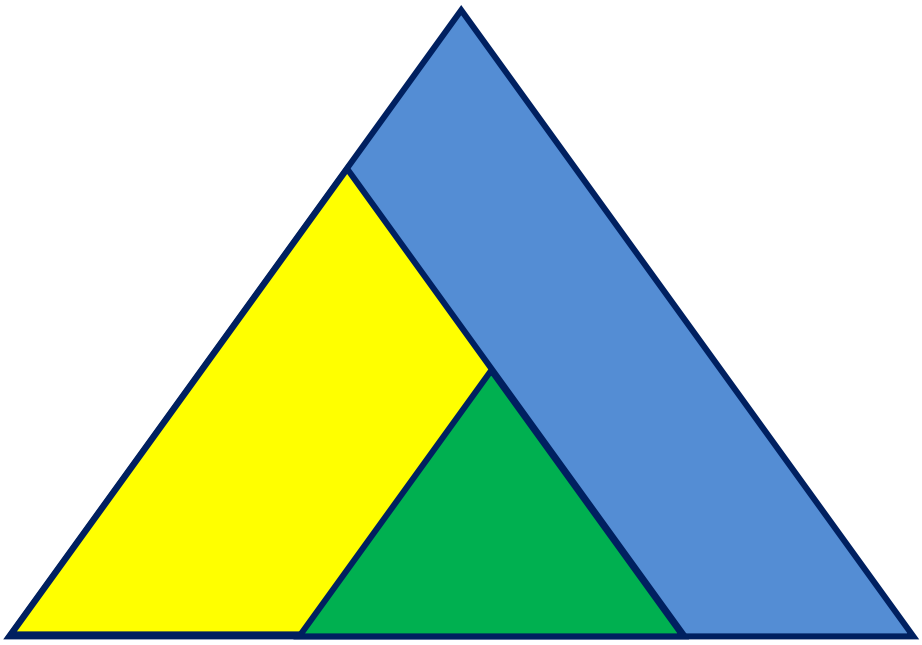
Fasten your seat belt, I am about to take you to an incredible journey into the secrets of profitable stock trading technique like a professional trader! With Simplicity!

There is NOTHING that I am going to "teach" you here.
I am only going to show you a new way of implementing the knowledge that you already are in possession of!

The simple trading technique that I am about to share with you is one which can be used by intraday traders, swing traders and investors alike.

Ask me "How is it possible that one trading technique will fit all trader profiles"?
That is because the price is fractal.
The word "Fractal" means, one piece is similar to the whole piece.

Take a look at the following picture:



You see? Each triangle is similar in shape to the whole triangle even though the size is different.

That's "fractal" and so is price. Similar to the triangles, a 15 minutes bar would look the same as a daily chart which will look the same as a weekly chart which will look the same as the monthly.

If you can identify one successful trading strategy on a 15 minutes chart you can implement the same strategy on a daily or weekly chart, they all look the same and they all behave the same!

The unique trading strategy that you will learn in this e-Book is exactly that.

You can apply the strategy to any time frame successfully.

You can learn this one trading strategy and apply it on any time frame to make profits from the stock markets.

Use this trading strategy and trade successfully in any time frame, on any instrument and on any market of the world. The price is fractal and the strategy is market neutral.

So let's get on with it already... Best of luck!

What drives Your Trading Decision?

Have you ever tried the following to take a trade?

- Breaking News
- "Hot" Tips
- News Letters
- Automated software signals
- Promising Trading Strategy e-Books
- The "I Feel" Syndrome (Gut feel)

What has usually been the Result?
Losses!
Let's cut the long story short, if the results were any better, you wouldn't be reading this e-Book for sure!
Case established, let's move forward to "solutions"...

But first, what does THIS e-Book promise?

For sure, this e-Book does not promise that you will become Waren Buffet in a month's time!

This e-Book promises, though, that you will immediately set on to the route of profits in your trading!
A dramatic change in your current trading style manifesting itself in the health of your trading balance sheet.
After reading this e-Book you will not even be bothered about the name of the stock that you are about to trade.
My dear reader you will only trade the pattern, not the company, not the news, not the tip, nothing, only the pattern.

Welcome to the Business of Trading! Let's begin...

Overview

A Stock or the Market itself never trades in one direction forever. They Change trend.
We will learn a simple trading strategy using which we will be able to clearly identify a trend change and trade it successfully for profits.
In this e-Book I will show you a very simple yet effective trading strategy that works on any instrument and in any time frame, provided enough data is available. I say "Provided enough data is available" because if you try to implement the strategy on a weekly chart of a future contract which is traded only for 3 months you are bound to get incorrect results, simply because there is not enough data to plot the chart that we require.

Ground Rules

- Start trading only 1 hour after the markets start trading.

- Trade only stocks that usually trade with large volumes.
  Liquid assets allow efficient entry and exits to your trade.

- Pick the profits, even if they are small.

- It takes guts to accept failure at times. Losses should not be dealt with ego!
  You take profits, so you should take losses also sometimes.

- Do not trade to take revenge from the market.

- Big Losses can crush your confidence in the market.
  If you take heavy losses stop trading for a couple of days.
  Take your mind off trading for some days and then start afresh.

- Not trading on some days is good; you don't HAVE to trade everyday!

- *Greed is a bad thing*

Which Instruments should you Trade?

- Work with instruments that usually trade with large volumes.
  Liquid instruments allow efficient entry and exits to your trade.

- While initiating a short trade, go short in futures instead of equity/spot.
  Futures usually attract less brokerage and are settled in cash not delivery.
  Shorting equity and not covering the position in time can lead to a problem situation!

- It is always best to keep a small list of liquid stocks to trade. Do not work with a long list of stocks.
  The reasons are:

    - A smaller list of tradable instruments allows you to better manage your trades.

    - The pattern that we are going to discuss applies to ALL instruments and in ANY timeframe, so you will get ample opportunities in a small list of instruments, you don't need to trade every single opportunity in the entire universe of stocks.

      Our focus is making "Profits" and NOT "trading" as such!

Prerequisites:

General

- Internet Access
- Browser
- Website/Software to filter out stocks and Plot Charts

For intraday Traders

- You must have a powerful trading software
- Your trading software must be able to plot intraday charts with different time frames

- One of the best trading software in India is the ShareKhan's Trade Tiger software.

First, the Basics

To be able to understand our pattern correctly and trade it profitably, you must know 3 simple basic tools used to analyze a chart:

1. Trend & Trend Line
2. Support & Resistance
3. Divergence on technical oscillators (MACD)

I will now take you through these 3 tools in brief details. Once you have learned the 3 tools we will put it all together to form our trading strategy and identifying our trading pattern.

1. Trend

If you have been trading you would know that a UP Trend is defined as a series of Higher-High's & Higher-Lows and a DOWN Trend is defined as a series of Lower-High's & Lower-Lows.

The below chart marks a UP and the DOWN trend on the chart:

Notice the area where the price is marked with blue dashed lines.

That is the area where the price is making a series of Higher-High & Higher-Low.
That means every high during this period was higher than the immediate previous high and every low is higher than the immediate previous low. This formation of price is an UP trend.

The area marked with black dashed lines is the period of down trend where the price is making clear Lower-Highs & Lower-Lows. This formation of price is a DOWN trend.

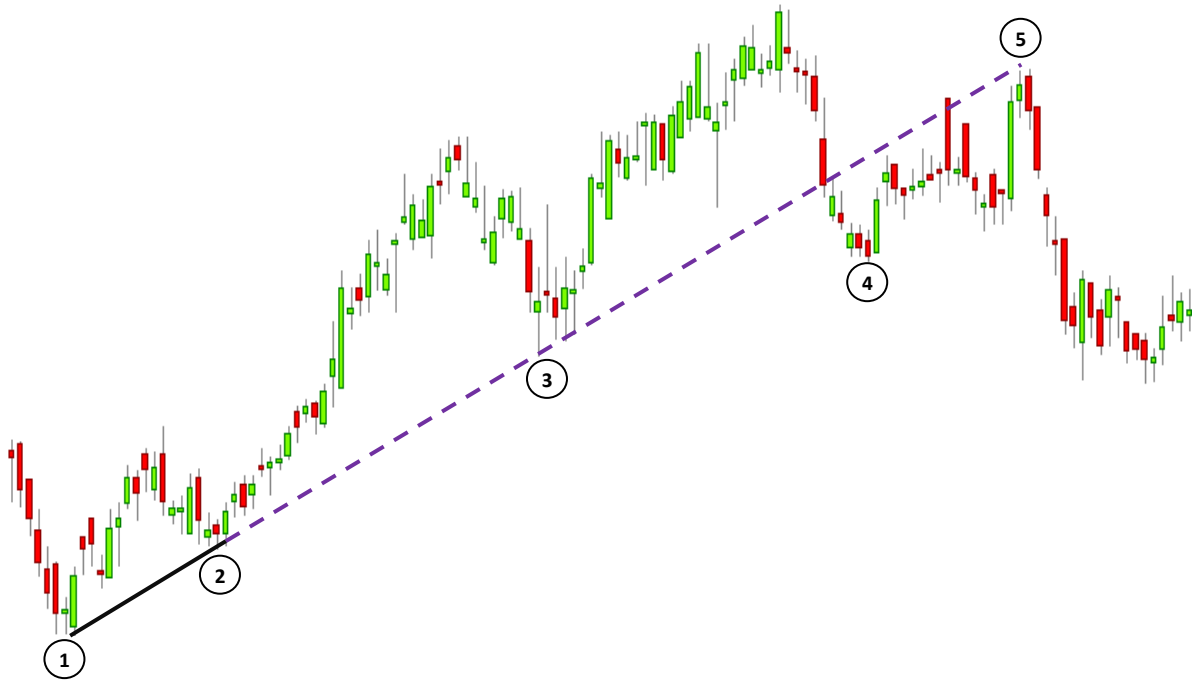
In the earlier page we have established the definition of “Trend”.
Essentially, an UP trend is defined as a series of Higher-Highs & Higher-Lows and a DOWN trend is defined as a series of Lower-Highs & Lower-Lows.

Simple Tool # 1: The Trend Line

(please skip this chapter if you know how to draw the trend line)

The Trend line is one of the oldest tools used to analyze the market movements and identify a trend.
A trend line is drawn on a chart manually.

The question is how do you draw the trend line?
Well, it’s quite simple. In an uptrend, draw the trend line **by joining the first two low points in the trend** with a straight line without letting the line cross through prices and then extend the line in the future. Take a look at the below chart marking the UP trend line (or the bullish trend line):



Notice in the chart that the first two lows, marked as “1” & “2”, are joined together with a black line without crossing the price. The purple dashed line is simply an automatic extension of the original trend line (black line).

The interesting part is the next low on the chart marked as “3”. The interesting part is that we drew the trend line joining only the first two points but the third point has also touched the trend line and reversed trend to bounce back up. This phenomenon is known as “price taking support on the trend line”.

Also interesting is that the low marked as point “4” on the chart. The point 4 has crossed below the bullish trend line, the price point/bar crossing below the trend line is known as a “trend line breakout”.

Notice that earlier in the chart the price took support on the bullish trend line at point 3. But then the price broke the bullish trend line to mark a new low at point 4. Now notice the point 5 which is a high on the chart. Notice that the point 5 is a high which touched the earlier bullish trend line and reversed the trend. This is known as “price taking resistance” on the trend line. That means the same line which was previously acting as a support is now acting as a resistance.
Confusing? Whoever said the market has logic?

Similarly, during a down trend a trend line (bearish trend line) can be drawn by joining the first two highs at the beginning of the down trend.

Like life itself, there is nothing perfect in the stock market. The price may cross below the trend line but still not start a down trend but bounce back up from there. Also drawing the trend line is more of an art and is quite subjective. Every individual will draw a different kind of trend line and interpret the line differently. But what we have learned in this chapter is the closest that we can get to interpreting the trend line correctly.

What we have learned in this chapter is:

- What is Trend
- How to identify a trend on the chart (series of higher-highs/higher-lows or lower-highs/lower-lows)
- How to draw a trend line(joining the first 2 highs or lows and extending the lines in the future)
- Price takes support/resistance at the trend line
- Trend line breakout (price point where the trend line is broken)

Now let's move on to the next tool: Support & Resistance

Simple Tool # 2: Support & Resistance

This is a very simple topic to understand so we will keep it short and sweet.

Support: Take a look at the below chart:

A picture speaks a thousand words! The above picture is self explanatory. Prices tend to move close to a previous low and change the preceding trend. This phenomenon of price coming close to a previous low and changing trend is known as "price taking support". Nothing more to explain here, well, in reality there is more to support & resistance but it would be out of the scope of this e-Book to venture any further in this area.

What is a Support?

- Support is the price level at which the Demand Exceeds Supply
- While declines towards support, buyers become more inclined to buy
- Sellers become less inclined to sell
- Thus the fall in Price comes to a stop

Resistance: Take a look at the following chart:

In the above chart the price is finding resistance at the previous highs. Resistance is exactly opposite to a support. When the prices move up and come close to a previous significant high, the price tends to reverse trends. This phenomenon is known as "price finding resistance".

What is Resistance?

- Resistance is the price level at which the Supply Exceeds Demand
- Near the Resistance, Sellers become more inclined to sell
- Buyers become less inclined to buy.
- And thus the price will find it difficult to move further up

It is not necessary that the point of support or resistance is a clear, sharp and significant low or high on the chart.

Consider the below chart:

In the above chart notice the area marked in a white circle.
You will notice that the price during the marked area just kept drifting without a clear trend.
This area is also called the area of consolidation. After the consolidation you can see the price moving up and then falling back down.

Pay attention to the area marked in the yellow circle. You will see that the area which is marked with the yellow circle, the bars have started drifting sideways after a clear down trend. This area is also near the previous consolidation zone which is marked with a white circle.

The point is that it is not necessary that a support or resistance will be a clear, sharp and significant low or high on the chart. A support or resistance can, and many times will, be an area of consolidation.

The most important lesson from the support & resistance chapter is that prices tend to reverse trend from these areas.

During a down trend the price tend to reverse trend at or near the previous low.
During an uptrend the price tend to reverse trend at or near the previous high.

What we have learned in this chapter is:

- Support
- Prices take support near the previous lows during a down trend
- Resistance
- Prices find resistance near the previous high during a up trend
- A support or resistance does not necessarily have to be a clear cut high or low on the chart.
- A previous area of consolidation is also an area of support or resistance.

Let's move on to the last important tool: Divergence on technical oscillator (MACD)

Simple Tool # 3: Divergence on technical oscillator (MACD)

Just in case you have the question "What is a technical oscillator?"
A technical oscillator is nothing but a mathematical formula applied to the moving price data.
The simplest form of technical oscillator could be as simple as a moving average.
A moving average is a simple mathematical formula where in you add all the data points together and then divide the sum total by the number of data points you have.

A technical oscillator is a more complex math applied to the price data.
To define the math behind these oscillators is out of the scope of this e-Book, there are about as million web pages over the internet which wants to explain you such math. If you really want to learn the math please Google "technical oscillators" and read the resulting pages.

For our e-Book we are most interested only in the MACD.

What is MACD?

MACD = Moving Average Convergence-Divergence
One of the most accurate trend predicting tools at the traders disposal
The MACD consists of two lines, the MACD itself and the Trigger line

Calculation:

- **MACD** =difference between the 12 days EMA and 26 days EMA of the closing price
- **MACD Trigger** = 9 Days EMA of MACD
  (EMA = Exponential Moving Average
  We strictly use 12EMA, 26EMA & 9EMA MACD chart)

- MACD is represented as a **BLUE** or **Green** line on the chart
- MACD Trigger is the **Red** line on the Chart
- The MACD and the trigger line move above and below the zero line. That means the MACD can be a negative or a positive reading.

Here is an interpretation of the reading of the MACD lines:

- MACD below the 0 means a down trend
- MACD above 0 means up trend

Important

- MACD above trigger line is a bullish signal
- MACD below trigger line is a bearish signal

- MACD below 0 and below the trigger line is a strong down trend
- MACD below 0 but above trigger line signals a possible trend reversal

- MACD above 0 and above the trigger line is a strong up trend
- MACD above 0 but below trigger line signals a possible trend reversal

The MACD chart throws certain indications about the price movement.

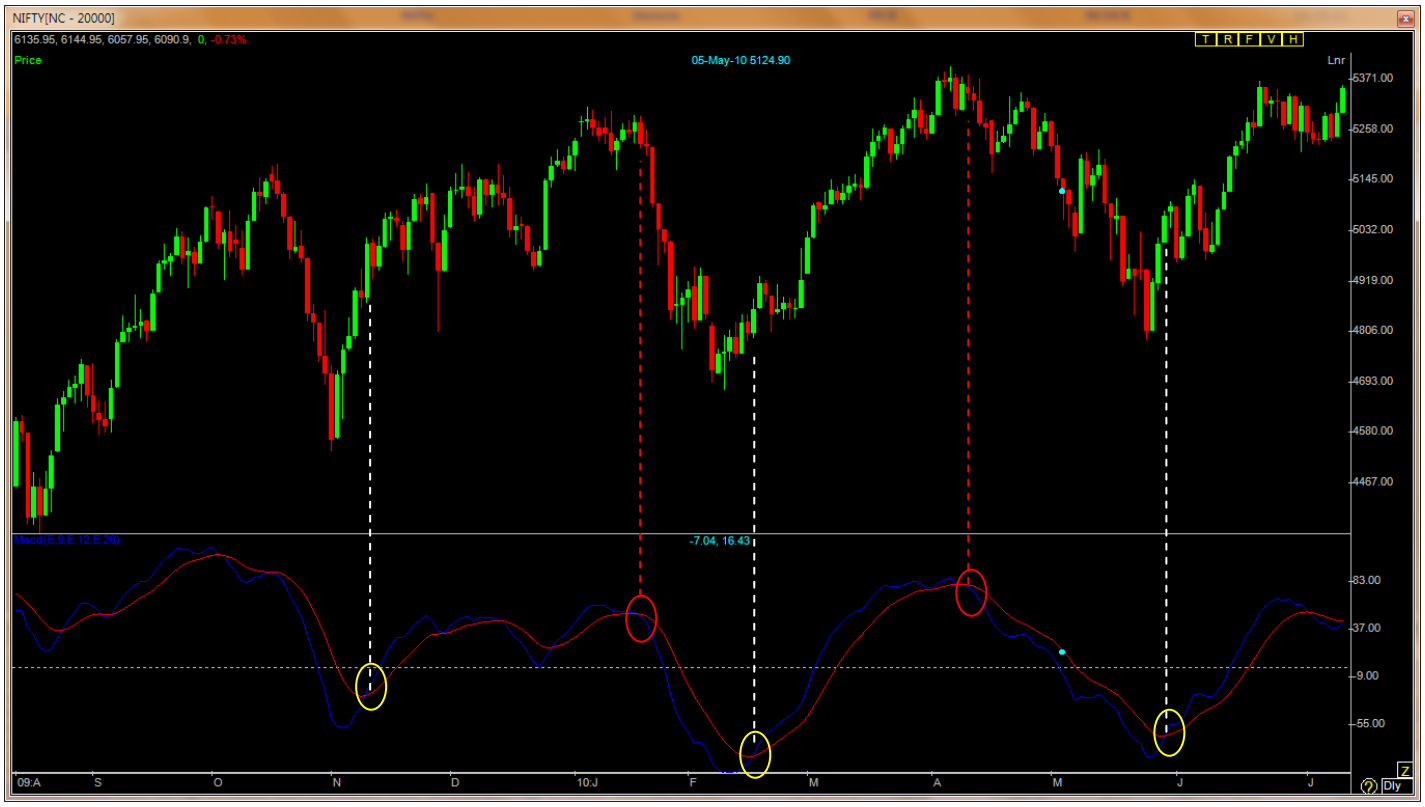
Some of the most important indication of the MACD oscillator is:

- MACD bullish or bearish Crossover

Most Important

- Bullish / Bearish divergence on the MACD chart

Consider the below chart, where the MACD's bullish and bearish crossover signals are marked:



Note the area marked in yellow circles. These are the areas where the MACD crossed above the trigger line from below indicating a buy signal.
The area marked with a red circle is the area where the MACD crossed below the trigger line, indicating a sell signal.

2 points to be noted here:

1. Sometimes the crossover signals are generated a little late during the trend.
   That is because ALL oscillators are lagging in nature. That means they give buy/sell signals after the price has already moved up or down significantly. Due to such lagging nature of the oscillators, the crossover indicators are usually less reliable.

2. Like life itself, nothing is perfect in the stock market too. Why should MACD be any different?
   You would notice on the MACD chart that there are even more crossover points on the chart which we have not marked. Notice the chart carefully and you will realize that some crossovers are false!
   That means crossovers can be significantly wrong in predicting the trend or the trend reversal.

If there are problems with the MACD, should we use it?
The answer is, YES we MUST use it.
Because the crossover points are not the only signals the MACD generates. It generates one more signal which is even more significant and strong trend reversal signal. This signal is called the "Divergence".

By definition the word "Divergence" means, two things moving in opposite direction.

Consider the below chart which shows a MACD divergence.

Please pay attention to the price chart first. Clearly the price is in a secular down trend.

Notice the last two lows on the price chart. The price has clearly formed a Lower-Low.
At the same time when the price made a Lower-Low, pay attention to the MACD chart.
You will notice that while the price was making a lower-low the MACD was making a higher-low.

This opposite movement of the MACD to the price movement is called a “Divergence”.

The “divergence” is the single most important signal generated by MACD (or any other technical indicator).

Though, the divergence in itself is not the holy grail of trading success!

How important is the Divergence then?

Take a look at the same chart below with the next set of data plotted; notice how the price has run up after the divergence:

That's how important it is!

While the above chart was an example of the bullish divergence, let's take a look at a bearish divergence too.

Consider the below chart:

In the above chart notice that the price is making a higher-high and at the same time the MACD is making a series of Lower-Highs consistently.

This is a Bearish divergence. The next chart shows the result of such a formation:

By now you get the importance of the “divergence”. That’s all we need to know about the MACD in general and the “divergence” in particular for our trading strategy.

Before moving any further, I want to take some time to define with crystal clarity what can be termed as a divergence. This is one of the most important topics to remember while looking for a divergence on the chart.

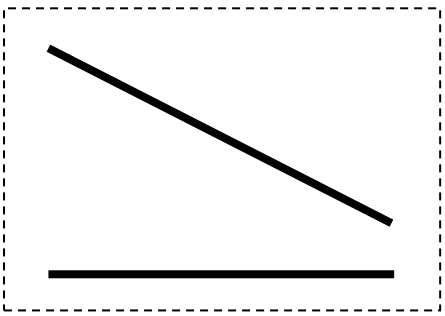
Consider the below lines:

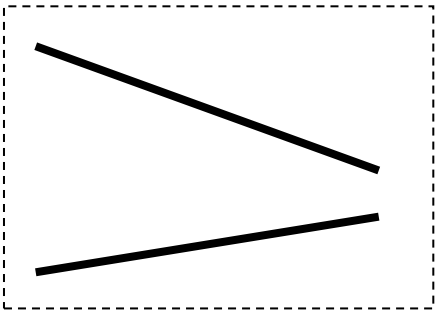
When you were in school, you must have learned Geometry.

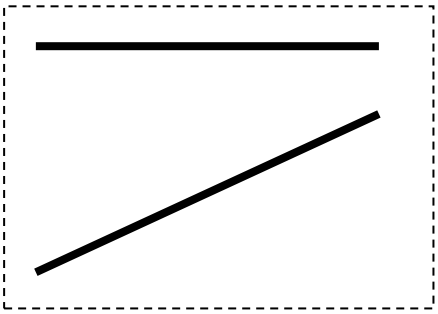
In the geometric terms what kind of lines are these?

They are “parallel” line. It means these lines will never meet each other.

Now consider these lines:



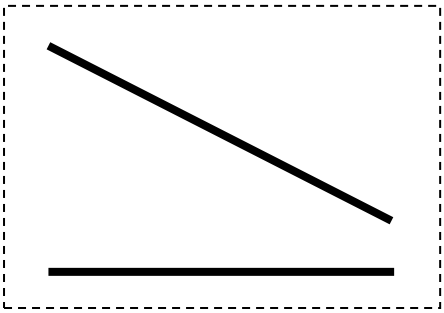




In the set of lines above, you will notice that if the lines are extended in the future on the right hand side they would meet somewhere in the future. The above sets of lines are “diverging” lines. Price and MACD in combination create similar divergences.

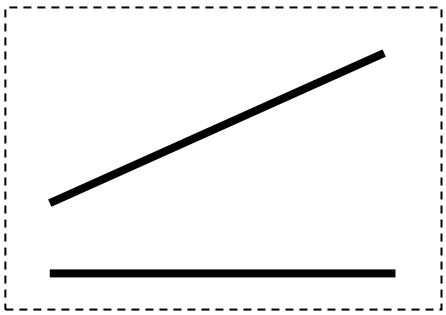
In the next page we will look at these 3 diverging patterns on the charts.

Divergence type # 1



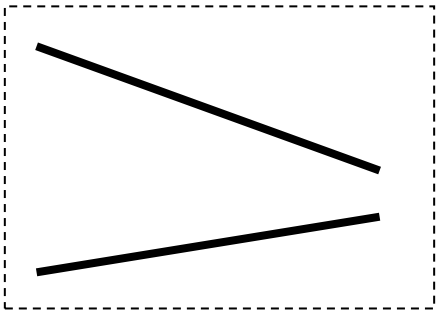
This type of Divergence is where the Price is making Lower-Lows but the MACD is making equal-bottom.
This is a Bullish Divergence, the Price may Rise from here!

The exact opposite of this pattern is a Bearish Divergence.
Consider the below chart:



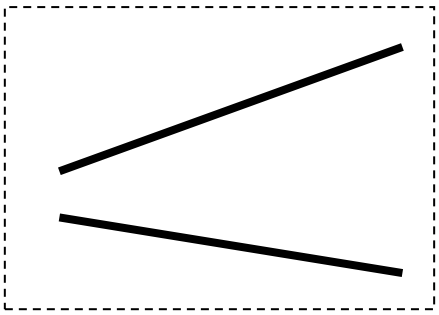
This chart is the exact opposite to the previous chart.
In this chart, the price is in an UP trend and making Higher-High but at the same time the MACD is making an equal-top.
This is a Bearish Pattern; the trend might reverse from here!

Divergence type # 2



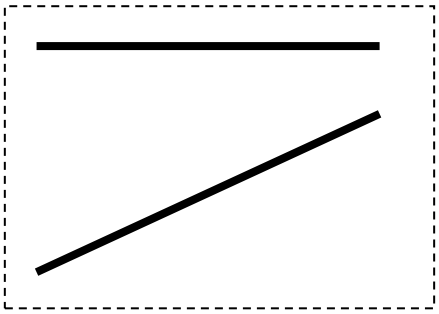
This type of Divergence is where the Price is making Lower-Lows AND the MACD is making higher-lows.
This is a HIGHLY Bullish Divergence, the Price should Rise from here!

The exact opposite of this pattern is a Bearish Divergence.
Consider the below chart:



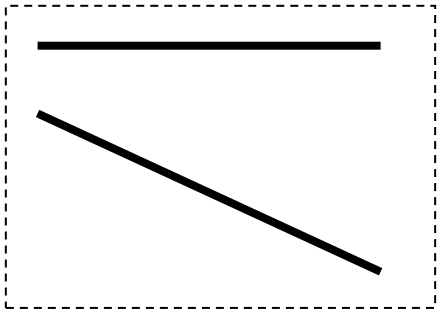
This type of Divergence is where the Price is making Higher-High AND the MACD is making Lower-High.
This is a HIGHLY Bearish Divergence, the Price should Fall from here!

And finally the 3rd type of Divergence:



This type of Divergence is where the Price is making Double-Bottom But the MACD is making Higher-Lows.
This is a Bullish Divergence, the Price should Rise from here!

The exact opposite of this pattern is a Bearish Divergence.
Consider the below chart:



This type of Divergence is where the Price is making Double-Top But the MACD is making Lower-Highs.
This is a Bearish Divergence, the Price should Fall from here!

Done, we are ready with the basic understanding required for what we really wanted to learn.
Before moving ahead lets consolidate on what we have learned till now.

We learned the following:

1. Definition of Trend
    a. UP trend = a series of Higher-High/Higher-Low
    b. Down trend = a series of Lower-High/Lower-Low

2. Trend line tool
    a. During a UP trend draw the trend line by joining the first two higher-lows and extend the line on the right hand side in the future.
    b. During a DOWN trend draw the trend line by joining the first two Lower-Highs and extend the line on the right hand side in the future.
    c. During UP trend Price takes support on the bullish trend line and bounces UP
    d. During a DOWN trend price find resistance at the bearish trend line and falls down

3. Trend line breakout
    a. During an UP trend when the price breaks down below the bullish trend line
    b. During a DOWN trend when the price crosses above the bearish trend line

4. Support & Resistance
    a. During a Down trend
        i. Price tends to take support near the previous lows
        ii. Price tends to take support near the previous consolidation zone

    b. During a UP trend
        i. Price finds resistance near the previous highs
        ii. Price finds resistance near the previous consolidation zone

5. Divergence on MACD
    a. We learned about the MACD
    b. Buy/Sell Signals generated by MACD by Crossover points
    c. Definition of “Divergence” = Two things moving in opposite direction
    d. Bullish divergence is when the price is making a lower-low during the down trend but MACD is making a higher-low
    e. Bearish divergence is when the price is making a higher-high during an uptrend but MACD is making a lower-high

Now that we have built the strong base, let’s put all of it together to identify a very specific pattern on the chart which can be traded successfully for profits.

Note that the pattern that we are going to learn just now is a pattern that forms on an intraday chart, daily chart, weekly chart or any chart provided enough data is available. And the pattern gets formed in any instrument be it equity/spot, futures, options, indexes, commodities, currency anything that is traded. And this pattern holds true for any instrument traded anywhere around the globe.

As a ground rule dear trader, you do not have to trade every opportunity in every single instrument on your exchanges. As a thumb rule trade only high liquidity stocks trading with large volumes consistently. Instruments traded with high volumes offer us the opportunity to enter and exit a trade efficiently!

Now let’s put everything together to form our trading strategy...

Putting it all together

To prove to you that the said patterns work in every time frame, I will pick up 2 examples with different stocks and different time frames. The first example we will look at is on an intraday chart for those who want to do intraday trading. The second example is on the EOD chart for those who want to do swing trading. For the investor category of trades who would like to trade for a few months, they can apply the same parameters on weekly charts.

Let's start with an intraday chart of equity.
Consider the below chart:

What we are looking at is a 4 days intraday chart of Punjlloyd, with 15 minutes bar.
Now let's apply all of our learning's to this chart in order to find a profitable trade.
First, Can you identify the trend on this stock?
Yes, the stock is in a clear down trend, making lower-highs and lower-lows. Since we are looking at an intraday chart the down trend looks very dramatic indeed.

So, the first thing established is that the scrip is in a clear down trend.

Now, let's draw a trend line on this chart.

Can you identify the trend line breakout on the last bar? Even though it's not really dramatic!
Anyways, WATCH!

Now let's add the MACD to this chart:

What do you see on this chart? Let's see...

Let’s take a zoomed in closer look at the chart:

What we see on the chart is that the price is making a lower-low during the down trend.
At the same time when the Price was making a Lower-Low, the MACD made a double-bottom or a slightly higher-Low.
That means a clear bullish divergence on the MACD chart.

So, what has been identified until now on the chart?

We have identified the following:

1. The price is in a clear down trend
2. We drew a trend line and found a trend line breakout on the last bar
3. The price is making a lower-low, immediately before the trend line crossover.
4. At the same time when the price was making a clear lower low, the MACD was making a double-bottom. This means a BULLISH DIVERGENCE.

Should be now trade this stock?
The answer is NO!

There is still one more confirmation that we need to enter this trade.
If you notice the MACD chart, even though there was a bullish divergence, there is still no Buy Signal.
A Buy signal is triggered on the MACD chart when the blue line (MACD) crosses above the red line (MACD Trigger line)

Now let's see what happens on the immediate next bar:

There goes, on the immediate next bar a buy signal is generated on the MACD chart with the MACD crossing above the MACD Trigger Line.

The last bar has closed at 131.95 at 01:30PM on 08-Oct-2010.
Notice that the last low is on the 08-Oct-2010 at 130.20.
The 08-Oct-2010 low is marked with a yellow circle on the chart.

Right, all set, let's take this trade now?
Yes let's go ahead and take this trade with confidence. Our stop loss will be at 130.20(lowest point on the chart), if any bar closes below 130.20 then we will close the trade.

Now that we have taken the trade, are you already anxious to know what happened to the trade we took?

OK then let's look at the fate of our trade on the very next trading session.

BINGO!

Note that we entered the trade on 08-Oct-2010 at 131.95 on the very next trading session the price touched a high of 137.30, that's a good 4.05% on our investments on a single trading session.

Notice the last bar on the chart; we could have very easily closed the position at 135.55 when a Sell signal is generated on the MACD chart.

That's how you trade the stock market for profits. Any instrument, any time frame and any market globally, this pattern keeps forming EVERYWHERE!

Let us summarizes what exactly we saw on the chart to make our trading decision, later we will go ahead to see this pattern on a Daily chart.

Here is what we saw on the chart:

1. A Clear down trend
2. We drew a trend line and identified the trend line breakout on the last bar
3. Immediately before the trend line breakout, the price made a Lower-Low pattern
4. When the price was making a Lower-Low the MACD made a Higher-Low (or double-bottom) to forming a divergence.
5. We entered the trade when the MACD finally gave a Buy signal by crossing above the MACD Trigger line

There was one additional confirmation on this trade which I did not discuss earlier and kept it purposely for the climax and which I now discuss here.

Two things to be noted my lord:

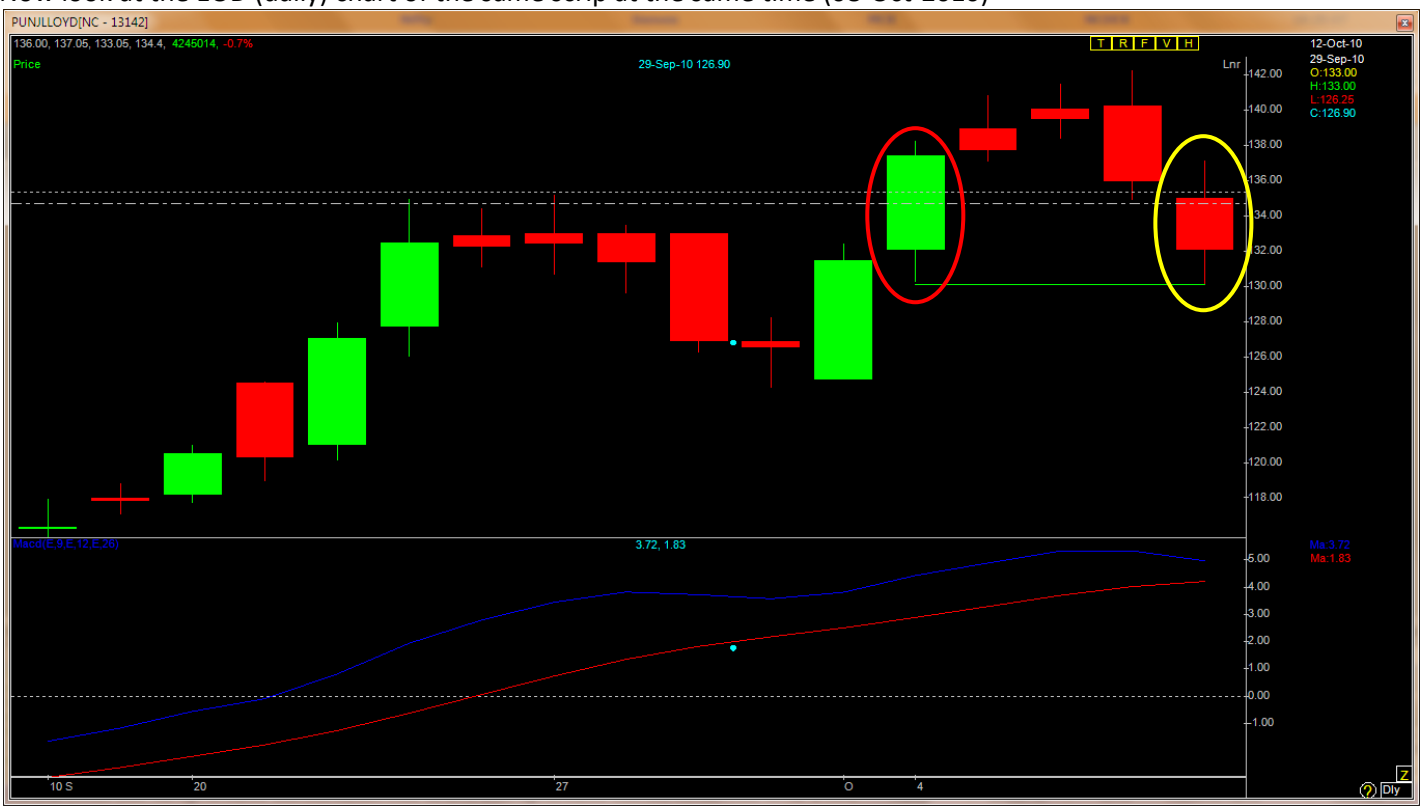
1. We learned the support and resistance as a TOPIC earlier but never bothered to check it while taking the trade
2. I spoke about the lowest point of the stock at 130.20 on 08-Oct-2010, what was the relevance of that low other than using it as a stop loss?

Here is the explanation:
We did not check the support or resistance on the chart before taking the trade and what is the relevance of the low at 130.2 other than using it as a Stop Loss.
The reality is that I did check the Support & Resistance, just which I did not talk about it earlier so that it does not confuse you.

Let's look at it now.
Look at this chart again:

We said that the price made a low at 130.2 on 08-Oct-2010 at 01:30PM.

Now look at the EOD (daily) chart of the same scrip at the same time (08-Oct-2010)



On the EOD chart, the last bar is 08-Oct-2010 marked with a yellow circle, the low is 130.20.
The bar marked with Red circle is 04-Oct-2010 and the low is 130.25.

So in reality the price did take a support at a previous bar's low price.

That means we took the trade right at the bottom.

While the bottom was getting formed, the following took place on the Intraday Chart:

1. We identified a Clear down trend
2. We drew a trend line and identified the trend line breakout on the last bar
3. Immediately before the trend line breakout, the price made a Lower-Low pattern
4. When the price was making a Lower-Low the MACD made a Higher-Low (or double-bottom) to forming a divergence.
5. We entered the trade when the MACD finally gave a Buy signal by crossing above the MACD Trigger line

We could very well take this trade with the above information only.
But we choose to look at the EOD chart once just before taking the trade and found that the bottom has got formed at a previous bars low point. That gave us an additional plus point of confirmation that now we MUST take this trade.

In essence what I am trying to say is that, we could have taken a trade on this scrip even without looking for a support and resistance area, the support and resistance confirmation is good to have but not a must have. It is not necessary that a reversal will only come near a previous support or resistance area. Of all we know the current bottom at the reversal point is itself a new support area getting formed!

Case established for our pattern, now let's take a look at a daily chart to identify this pattern and trade it.

Pattern on daily chart

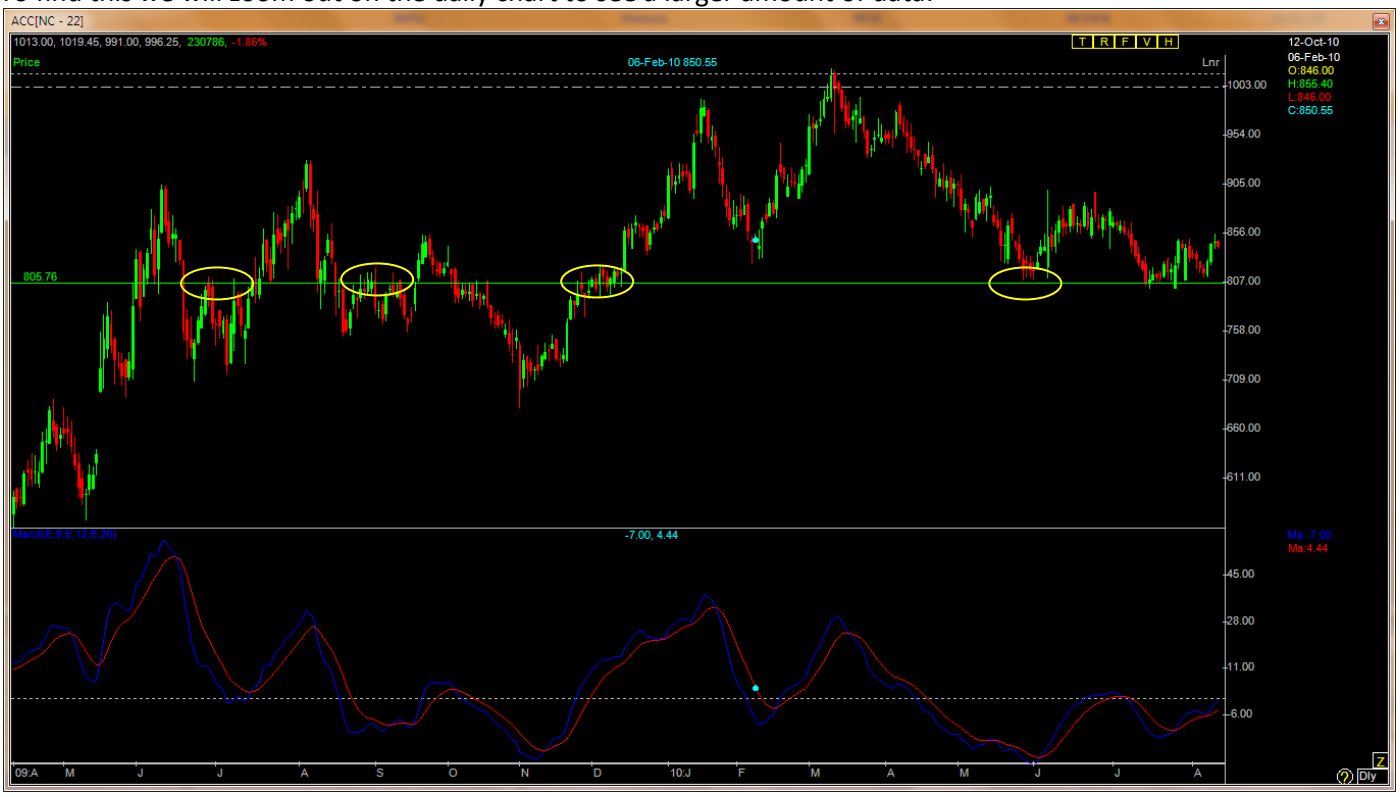
Following is the Daily chart of ACC:

What do you notice on this chart?

Let us identify each signal on this chart, wherever the signal is found we will mark the answer as TRUE

Question	Answer
Is the trend clearly DOWN?	TRUE
Did the price break the bearish trend line	TRUE
Immediately before breaking the bearish trend line, did the price make a Lower-Low?	TRUE
While the price was making a Lower-Low, was the MACD making a Higher-Low?	TRUE
Has the MACD produced a Buy signal?	TRUE

Finally when all the questions are marked as TRUE see if the last low price was near a previous support area.
To find this we will zoom out on the daily chart to see a larger amount of data:



In the above zoomed-out chart of ACC, when we placed a horizontal line near the last low we could see that the price was indeed near a previous support area. The yellow circles on the chart show the area of support.

Note that I use the operating word “area of support” and not “support” alone. That is because a support or resistance should not be looked at as a single sharp point on the chart. A support or resistance should always be looked upon as an “area” or “zone” on the price chart.

Now that it has been confirmed that the last low is near a previous support zone, let’s take a look at the zoomed-in daily chart of ACC and mark all the true parameters on the chart so that a long trade can be confirmed:

The parameters to be marked on the chart are:

0	Is the trend clearly DOWN?	TRUE
1	Did the price break the bearish trend line	TRUE
2	Immediately before breaking the bearish trend line, did the price make a Lower-Low?	TRUE
3	While the price was making a Lower-Low, was the MACD making a Higher-Low?	TRUE
4	Has the MACD produced a Buy signal?	TRUE

The stock is in a clear down trend; it's visible to the naked eye!

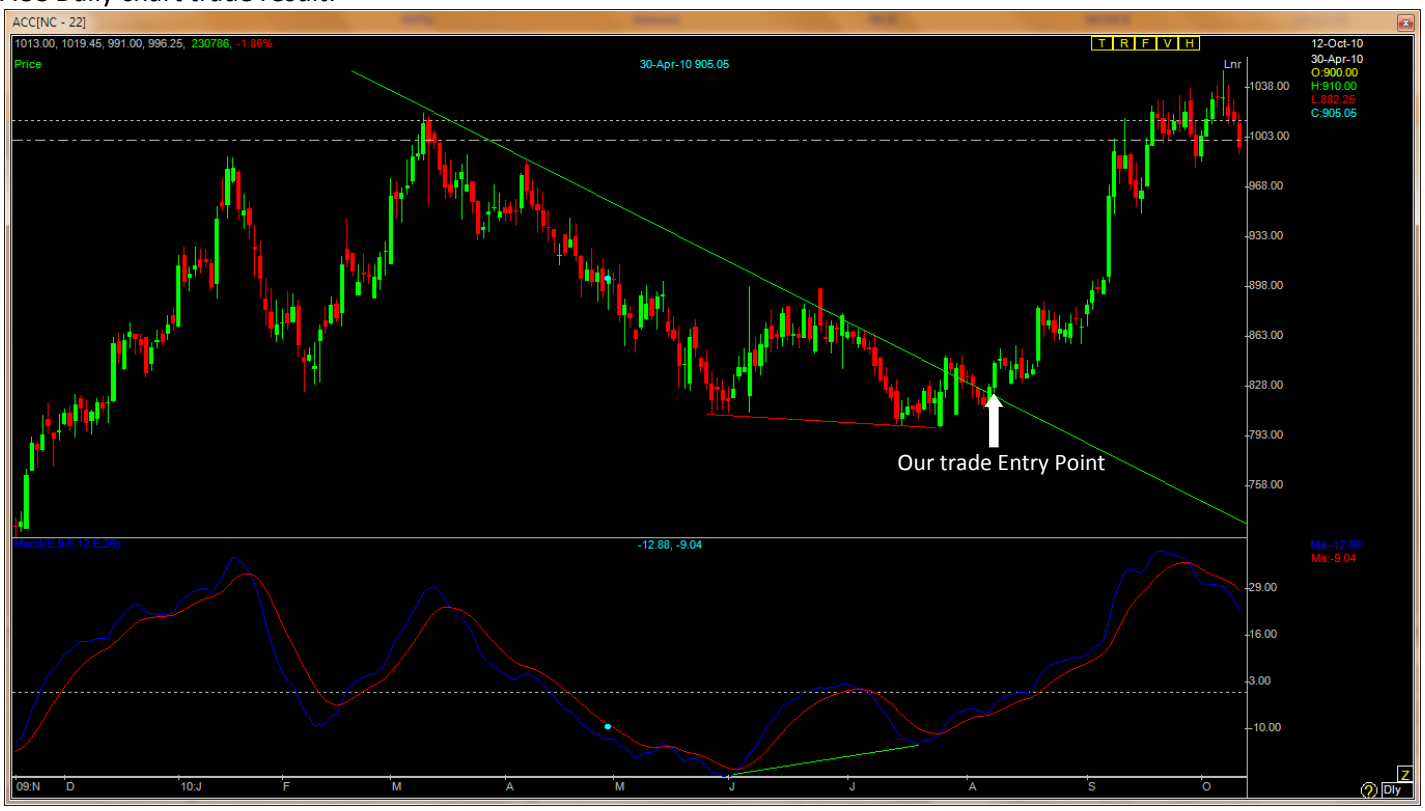
1. The bearish trend line has been indeed broken
2. Just before breaking the bearish trend line the price indeed made a lower-low
3. As the price was making a Lower-Low the MACD indeed made a Higher-Low confirming a Bullish divergence
4. The MACD indeed already gave a buy signal earlier by crossing over the trigger line from below
    - Marked with yellow circle on the chart

And the final confirmation has been that during the last low the price was indeed near the previous support area.

OK All is well! Let's take the Trade.

Curious to know the result? Let me oblige and show you the result.

ACC Daily chart trade result:



Based on the analysis we would have entered the trade at 844.6 on 09-Aug-2010.
The stock had a dream run and made a high at 1050 on 07-Oct-2010.

That's a solid 24.4% in 59 days!

That's it my dear trader, that's all there is to successful trading.
As I said earlier this will definitely not make you the Waren Buffet of the stock market, but it will sure put you on path of success almost immediately.

This trading strategy will not identify stock for you who will triple in price in 2 months, but it will identify stocks for you which you can trade on a daily basis.

Losses are a part of the business of trading; this strategy does not promise you all winning trades in a row. But it does promise that you will get on the right side of your trades.

This strategy will definitely save you from falling prey to the trap of bottom fishing.

Essentially, if you closely study the strategy, the strategy will give you an entry signal only after the down trend has played itself off. So if you follow the strategy religiously, you will automatically be avoided the bottom fishing trap.

And this pattern keeps forming all over the places, any timeframe and any instrument.

On the next page I will show you some real example of this pattern occurring.
Then I will show you some example of taking a short trade based on this same pattern.

Long Trade Examples:

Below is the EOD Chart of Nifty during Jul-2008

The bar marked with the arrow is our entry point at 4092. The Nifty made a high of 4539 in 4 days!

That's a good 400 points!

Reasons for entry:

1. Trend is clearly down.
2. We drew the trend line to find that there was a clear trend line breakout.
3. Immediately before breaking the trend line the price made a lower-low
4. At the same time the MACD was making a Higher-Low (Positive Divergence)
5. There was a Buy signal generated on the MACD chart.

Short Selling Example:

Jan-2008 fall, how did you trade it?

Here's how you could have traded it:

The above chart is the EOD chart of Nifty during the Jan-2008 period.

With the help of our Trading Strategy, you could have taken a short position at the bar marked with yellow circle on the price chart. The Nifty closing then was 5935. In the next 4 days the Nifty lost a massive percentage of the previous gains. The low on the fourth day was 4448. That's a massive 1487 points gone on the Nifty, In 4 Days Flat!

Reasons for Trade:

1. The trend was clearly UP
2. We drew the trend line to discover that there was a trend line breakdown on the bullish trend line
3. Immediately before the trend line break down the price was making Higher-Highs
4. At the same time the MACD was making Lower-Highs (Negative Divergence)
5. There was a Sell signal generated on the MACD chart earlier

Now an **Intraday** short selling example...

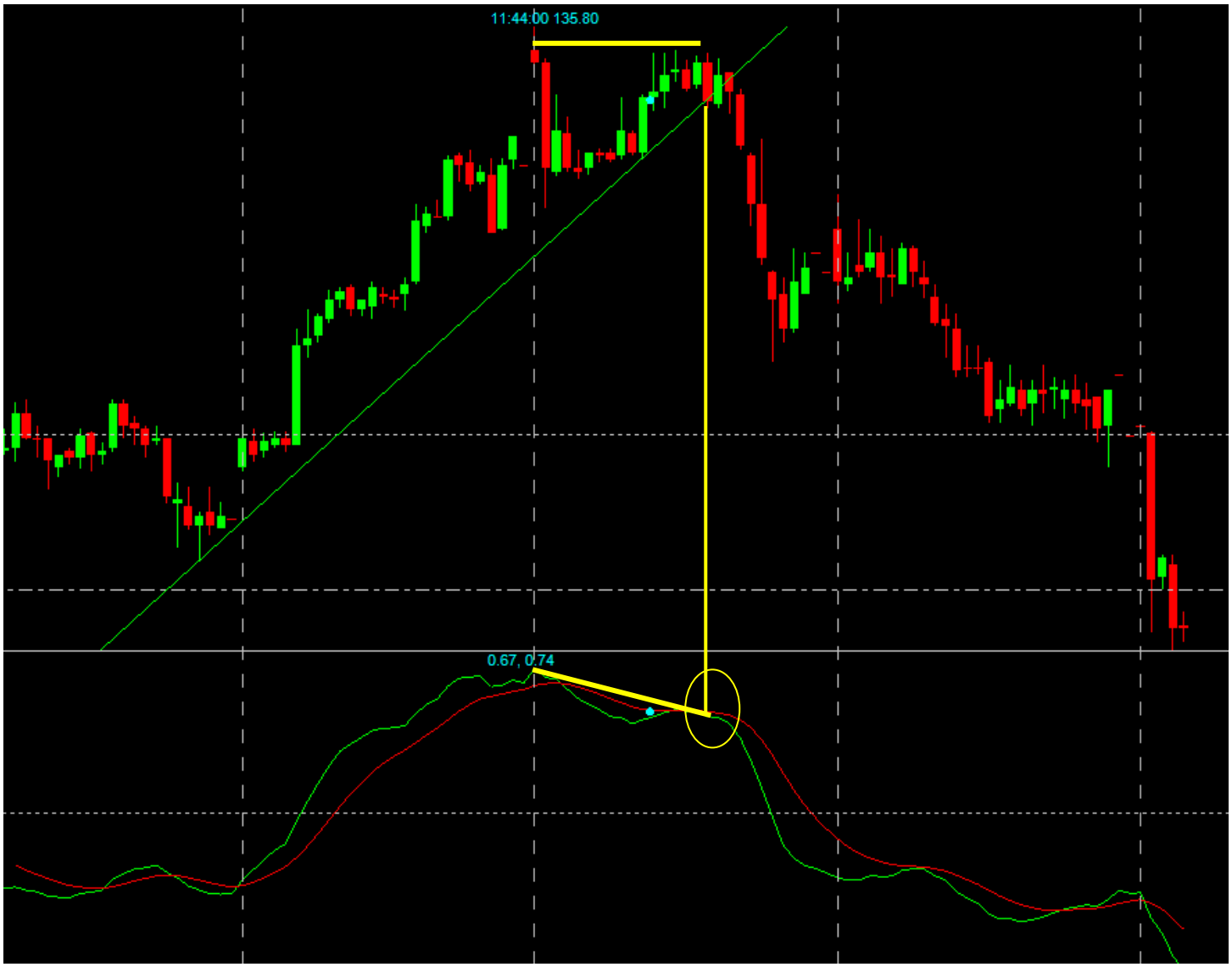
Above is the intraday chart of an equity share. The chart is set to show 5 days intraday data with 15 minutes bar size.

Reasons for going short:

1. Price was in a UP trend.
2. We drew the trend line to notice that there was a trend line breakout
3. After the trend line breakout, the stock made a Higher-high
4. At the same time the MACD made a Lower-High
5. MACD had already generated a Sell Signal

If we would have taken this trade at 133(short selling)
In 2 days the price has reached 127!

The next chart is again a short selling example for the same reasons as mentioned above.



Above is the intraday chart of an equity share. The chart is set to show 5 days intraday data with 15 minutes bar size.

Reasons for going short:

1. Price was in a UP trend.
2. We drew the trend line to notice that there was a trend line breakout
3. Immediately before the trend line breakdown the stock made a double-top
4. At the same time the MACD made a Lower-High
5. MACD also gave a Sell Signal

And now to prove that this pattern works in any market of the world.
Consider the next chart.

This is the Dow Jones Industrial Average 5min chart as on 20-Oct-2010.
Notice our strategy parameters getting played out on the chart.

1. The trend was clearly down
2. We drew a trend line and found a trend line breakout
3. Immediately before the trend line breakout the price made a lower-low
4. While the price was making a lower-low the MACD made a Higher-Low (Bullish Divergence)
5. The MACD has already given a BUY Signal by crossing above the Trigger line
6. Note that in the above example we did not check if the price was near a previous support area.

Finally before closing let me give you a list of questions you should ask yourself before entering a trade.

For A Long Trade

While initiating a Long (Buy) trade, answer these following questions:

1. Is the recent price movement in a clear down trend?
2. Has the price now broken above the bearish trend line?
3. Immediately before the Bearish Trend line breakout, did the price make a Lower-Low?
4. Did the MACD make a Higher-Low at the same time when the price was making a Lower-Low (Positive divergence)?
5. Has the MACD given a Buy Signal?
6. Was the last price low formation near a previous support area (Optional)?

If most of the answers result in a "Y" then go ahead and initiate the Long trade.

Your stop loss should be below the recent lowest low.

For a Short Trade

While initiating a Short selling trade, answer these following questions:

1. Is the recent price movement in a clear up trend?
2. Has the price now broken below the bullish trend line?
3. Immediately before the Bullish Trend line breakdown, did the price make a Higher-High?
4. Did the MACD make a Lower-High at the same time when the price was making a Higher-High (Negative Divergence)?
5. Has the MACD given a Sell Signal?
6. Was the last price high formation near a previous resistance area (Optional)?

If most of the answers result in a "Y" then go ahead initiate the Short trade.

Your stop loss should be above the recent highest high.

Extremely Important!

Remember: When in Doubt, Just Stay Out!

When you don't understand what's happening on the chart, its better NOT to trade. We Don't HAVE to trade by force!

Practise makes us perfect. So practise well before getting into your trade in the live market.

Wishing you all success for a great trading career ahead!

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